



Accessing Credit Reports

Individuals can and should request a free credit report every 12 months. Not knowing what is on your credit report could result in not being able to get a loan for a car or a house, having to pay a higher security deposit when renting or setting up utilities, or being hired for a job.

The three main credit reporting agencies are:

- ◆ Equifax, Inc.
P.O. Box 740241
Atlanta, GA 30374
www.econsumer.equifax.com
- ◆ Experian
P.O. Box 2002
Allen, TX 75013
www.scorecard.experian.com
- ◆ TransUnion
P.O. Box 1000
Chester, PA 19022
www.transunion.com

Individuals can contact the credit agencies separately or call 877-322-8228 or visit www.annualcreditreport.com.

This fact sheet and others can be found at www.mdeid.org and www.mdworkforcepromise.org.

Questions?

Contact Maryland Department of Disabilities

Credit: Why It's Important

Overview

Credit is money that is borrowed - usually from a bank, credit card company or credit union - to pay for things that an individual may not have the money to pay for at the time. Credit is not extra money; it is a loan and the lender expects to you pay back all the money that is borrowed, plus interest. Interest is the extra amount of money that the bank charges for giving a loan. When a bank makes certain types of loans, the individual who borrows the money is typically expected to offer some form of collateral. Collateral is property, such as a house or car, which an individual agrees to give the bank if he/she does not repay the loan. Other types of loans and most credit cards do not require collateral but usually have higher interest rates.

When an individual applies for a loan or a credit card, one of the first items the lender will look at is the individual's credit history. Credit history is a record of an individual's past borrowing and repaying information. Having a poor credit history puts an individual at risk of not being able to receive a loan and may even impact your job.

Credit Cards

Credit cards are accounts that can be used to buy things, such as household, family or other personal expenses. Each month credit card companies send a bill for the charges that were made on the account and each month a portion of those charges must be paid back to the credit card company.

Credit cards are a way to:

- ◆ keep track of expenses,
- ◆ a convenient way to borrow money,
- ◆ and a way to purchase items without having cash on hand.

There are two types of credit cards: secured and unsecured. A secured credit card is for individuals with no credit history or with credit problems. It requires maintaining a bank account with the minimum balance, and an application and processing fees. Unsecured credit cards are the more typical type of card and do not require collateral.

Key terms to understand when choosing a credit card are:

- ◆ Annual Percentage Rate (APR) - rate the cardholder is charged for an outstanding balance on the card each month.

- ◆ Annual Fee - a yearly cost of the credit card account that must be paid in order to use the card. Not all credit cards have an annual fee.
- ◆ Minimum Payment - minimum dollar amount that must be paid each month.
- ◆ Minimum Finance Charge - lowest fee the account will be charged each billing period.
- ◆ Method for Computing Interest - how the credit card company calculates the amount of interest to be charged.
- ◆ Billing Cycle - the length of time between each month's bill that will be covered in each monthly statement.
- ◆ Grace period - the amount of time between the date of purchase and the date interest starts being charged for that purchase.

Keep in mind, having a credit card is a big responsibility and it is important to not overspend. The best way to manage a credit card is to pay off the full amount owed each month.

Credit and the Job Search Process

Not only can bad credit affect whether or not an individual gets a loan, it can affect whether or not an individual is offered a job. A large number of employers are conducting credit history checks before offering prospective employees a position. One reason that employers do this is they think individuals with large balances and/or bad credit will be more likely to steal because of their financial situations. Employers may perceive an individual who has serious negative marks on his/her credit, such as collection actions, repossessions, foreclosures and evictions, as someone who is irresponsible and therefore would not make a good employee.

If an individual is trying to obtain a job that requires security clearance, his/her financial history can have a negative impact. One of the guidelines in determining whether or not an individual is eligible for a security clearance is financial. The Questionnaire for National Security Positions has an entire page where the individual has to answer questions about his/her financial well-being and disclose information about any financial obligations (i.e. credit card bills, loans, etc). It is possible for an individual to be disqualified from getting a security clearance for having a history of bad credit.

It is important to remember that all of the decisions made about credit in the past can have an impact in many aspects of an individual's life in the future.

Building Credit

The Federal Deposit Insurance Corporation (FDIC) offers the following tips for building credit.

- ◆ Get a copy of your credit report and review it for errors *(see the side bar on the front of this fact sheet for contact information for getting a credit report).*
- ◆ Apply for a small loan at a bank or credit union where you have an account.
- ◆ Apply for a store credit card at a local department store. Generally department stores are more willing to lend money.
- ◆ Make a large down payment on a purchase and negotiate credit payments for the balance.
- ◆ Ask a friend or relative to be a co-signer on a loan so that you can establish credit. Be aware if you do not pay on the loan you will not only damage your credit, you will also damage the co-signer's credit.
- ◆ Pay bills on time. This helps establish a good credit history.
- ◆ Make regular deposits into a savings account. This is a way to show that you can make regular payments even if you are making the payments to yourself.

Repairing Bad Credit

Repairing bad credit typically takes between 7 - 10 years. The Federal Deposit Insurance Corporation (FDIC) offers the following tips for repairing credit.

- ◆ Contact a credit agency to get a copy of your credit report.
- ◆ If there are errors on the report, contact the credit reporting agency to request an investigation.
- ◆ Contact your lenders to renegotiate payment plans.
- ◆ Opt out of receiving unsolicited offers for credit cards to avoid the temptation of applying for them.

Another way to repair credit is to use a credit counseling agency. The Federal Trade Commission provides the following tips for choosing a credit counseling agency.

- ◆ Interview several credit counseling agencies before signing a contract.
- ◆ Check with the State Attorney General, local consumer protection agency and the Better Business Bureau to find out if any complaints have been filed against the agency.
- ◆ Ask questions about services and fees and a repayment plan.

Resources

U.S. Department of Housing and Urban Development (HUD)

HUD sponsors housing counseling agencies throughout the country that provide advice on buying homes, renting, defaults, foreclosures and credit issues.

Website: www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm

Money Smart - A Financial Education Program

Federal Deposit Insurance Corporation

A web-based program that has 10 modules on several topics including banking, borrowing money, credit, charge cards and buying a house.

Website: www.fdic.gov/consumers/consumer/moneysmart/mscbi/mscbi.html

OptOutPrescreen.com

The official Consumer Credit Reporting Industry website to accept and process requests for individuals to Opt-In or Opt-Out of credit card offers.

Voice: (888) 5-OPTOUT

Website: www.optoutprescreen.com

Project SCOPE (Security Clearance Overview & Preparation Education)

An initiative of the Fort Meade Alliance with the support of Anne Arundel Community College

Website: www.project-scope.org